



Psychological Drivers of Financial Misreporting: A Study of Personality, Risk-Taking, and Ethical Culture in Pakistan's Corporate Sector

¹Sajid Mushtaq & ²Khalil Ur Rehman

¹Institute of Business Administration, Khwaja Fareed University of Engineering & Information Technology, Rahim Yar Khan, Pakistan.

²Institute of Business Administration, Khwaja Fareed University of Engineering & Information Technology, Rahim Yar Khan, Pakistan

ABSTRACT

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Financial reporting irregularity is still a serious issue to market stability, especially in new emerging economies, where structural governance is often limited. This study aims to shed light on the psychological motives for creative accounting practices (CAP) in Pakistan's corporate world, transcending the conventional focus on institutional explanations. Specifically, it investigates the direct relationships between the Big Five personality traits and CAP, the mediating role of risk-taking behaviour, and the moderating role of the boundary condition of organizational ethical culture. The design used was quantitative cross sectional based on the Trait Activation Theory. The primary data was collected by using structured online survey from 690 accounting, finance and audit professionals around Pakistan. Partial Least Squares Structural Equation Modelling (PLS-SEM) was used as the method for testing the hypothesized moderated mediation framework. Findings indicate that Extraversion, Neuroticism, and Openness to Experience are important positive predictors of CAP. The findings of this study suggest that financial misreporting can be prevented if regulatory compliance is the only focus. Behavioral risk profiling needs to be incorporated into the recruitment process for sensitive positions, and proactive steps need to be taken to create positive ethical climates to help extinguish opportunistic behaviours within organizations.

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Corresponding Author's Email: sajidmushtaq951@gmail.com

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1.0 Introduction

The market stability and stakeholder confidence remains a significant challenge in financial reporting, especially in the form of creative accounting and earnings management practices, all over the world (Riyadh et al., 2024). Even in the presence of strict regulations, including International Financial Reporting Standards (IFRS) and the establishment of strong corporate governance procedures, corporate scandals still crop up. This persistence suggests that financial manipulation is not easily eliminated with structural or regulatory enforcement measures. Rather, creative accounting is often done in "grey areas" of the legal and regulatory framework where ambiguous definitions and managerial judgements about estimation, classification and timing are used, but not so much that they blatantly breach the rules (Kamau & Murori, 2024). These reporting shortcomings have consequently been becoming increasingly apparent as behavioural phenomena in the current accounting literature, instead of being viewed as a by-product of poor institutional performance. In the case of financial statement manipulation, it is essentially a conscious, risk-taking, psychological decision made by the preparer of the financial statements (Bhasin, 2016). In Pakistan, SECP, SBP, ICAP, among other regulatory bodies, have consistently improved compliance guidelines. But the problem of financial reporting irregularities persists due to the concentrated ownership, political factors, economic fluctuations and inconsistent application of standards (Bashir et al., 2024).

It is crucial to recognise that the "human element" is a key consideration in financial decision making, given the degree of technical enforcement that is often breached. Traditions literature on financial misreporting have focused on the macro level, agency theory, structural corporate governance features, such as board independence and audit committee size – these have one-sided theoretical perspectives. They tend to ignore the embedded psychologies that underlie the actions of professionals when facing identical structural pressures, and leave significant empirical and contextual research space. From a historical perspective, most of the behavioural accounting models have been developed and tested in developed economies with strict regulatory enforcement. It is difficult to generalize these results to other countries, such as emerging markets like Pakistan, which have very different institutional, economic and cultural contexts, and have to be interpreted in the light of an enforcement asymmetry that enhances the importance of psychological traits. Empirically, the existing literature has recognised that existing personality traits are related to the financial reporting but there is a lack of comprehensive models that trace the precise psychological connections between the personality traits and the active financial manipulation (Bogdan et al., 2018). Most studies have focused on a single variable at a time or used demographic proxy variables to study this behavior, neglecting the multi-faceted nature of the behavior by not concurrently investigating both direct and intervening and mediating mechanisms.

To address these issues, this study examines the behavioral foundations of financial manipulation by combining the concepts of personality psychology, behavioral decision making, and organizational ethics. This study aims to systematically review the effect of Big Five personality traits: Extraversion, Agreeableness, Conscientiousness, Neuroticism, and Openness to

Experience on the creative accounting practices (John et al., 2008). This study also aims to assess the intermediary role of risk-taking behaviour, recognizing that personality traits work with each other and in concert. The link is hypothesized to be through the individual's financial reporting behaviour, which in turn is determined by their psychological disposition to risk taking, and this is posited to be the most important mechanism for translating latent psychological dispositions into observations of financial reporting decisions that are subject to high variability (Nicholson et al., 2005). Moreover, the study is trying to find out the moderating effect of the organizational ethical culture. The research is based on the idea of Trait Activation Theory that suggests that a strong ethical climate can act as a powerful boundary condition, either inhibiting or activating the psychological characteristics of an opportunist personality that can result in manipulations (Treviño et al., 1998).

The importance of this study is multiple with rich theoretical as well as practical contribution to the body of knowledge. In theory, it introduces a totally new behavioural accounting system where managers' psychological motivators are used as a catalyst rather than external forces. The research also brings together theories of TAT, UET, AT, and the Fraud Triangle Theory within the context of accounting to create a multi-layered model that explicitly links situational contexts to interaction between individual dispositions, and ultimately to financial misreporting. In terms of practice, the results provide valuable information for the field of corporate governance, human resource management and the formulation of regulations. It highlights the need for a shift in approach from a compliance-based regulatory regime towards embedding psychometric and behaviour screening in sensitive financial and auditing recruitment and promotion processes. Moreover, it points out to policy makers and auditors that if they don't foster an ethos within the organization, formal governance structures will be inadequate to curb the natural tendency to take risks, which leads to creative accounting.

2.0 Literature Review

2.1 Behavioural Perspective in Accounting

Creative accounting is still a complex and controversial issue in the current financial literature (Sari & Muslim, 2023). Although the structural and technical explanations are quite limited (Kamau & Murori, 2024), they are still important since there is a continued existence of discretionary reporting practices to ensure transparency, comparability, and integrity. With the passage of time, modern academic studies have realized and accepted that financial misreporting is more than just a matter of accounting rules and poor institutional enforcement, but a process deeply rooted in managerial cognition, ethical reasoning and psychological dispositions (Nanggala, 2023). Therefore, the need to comprehend creative accounting requires a paradigm shift to behavioural accounting theories that include concepts from personality psychology, organizational behaviour, and ethical decision-making (Thelen & Formanchuk, 2022).

2.2 Creative Accounting Practices

Creative accounting involves the intentional use of managerial flexibility within the permitted scope of accounting standards to alter the financial outcome of most economic activities, sometimes in order to misrepresent the true economic reality, and for the purpose of achieving the specific objectives of the management and/or the market. Creative accounting is described as the

intentional application of managerial discretion within the permitted scope of accounting standards to change reported financial results, often with the aim of masking the true economic reality, and to fulfill the specific objectives of the management and/or the market (Strakova & Zvarikova, 2021). Creative accounting is not the same as outright fraud, that is cases of direct falsification and illegal activity, creative accounting takes place in the “gray” areas of the law (Mansour et al., 2024). It covers different manipulation methods such as accrual-based manipulation, income smoothing, big bath accounting, classification shifting and manipulation of real operational activities (Olojede & Erin, 2021; Rahman et al., 2023). In emerging markets with high concentration of ownership and political influence and inconsistent regulatory enforcement, the practice of creative accounting tends to become a common practice to sustain organizational life or smooth performance (Bashir et al., 2024). In the institutional environments, this institutional laxity magnifies the role of the "human element," such that individual psychological characteristics and ethical orientations are the major factors to determine whether or not discretionary flexibility manifests itself as opportunistic manipulation (Do & Ngo, 2023).

2.3 Personality Traits and Accounting Behaviour

The Five-Factor Model (also referred to as the Big Five personality traits) is a comprehensive cross-culturally validated model to understand the psychological drivers of creative accounting (John et al., 2008; Bleidorn, 2024). These are the Big Five personality dimensions which are stable traits that influence an individual's information-processing, stress management, and response to organizational rewards (Barrick & Mount, 1991).

2.3.1 Extraversion, Openness to Experience, and Neuroticism

H. Li & Gao (2025) describe extraversion as being sociable, assertive, and responsive to external rewards. Extraverted managers are generally active, oriented toward social approval and may engage in boundary stretching behaviors when organizational 'success' is linked to aggressive reporting decisions (Simha & Parboteeah, 2020). Openness to Experience refers to intellectual curiosity, cognitive flexibility and tolerance for ambiguity (Rengifo & Laham, 2022). Openness creates opportunities for innovation, but can also be the source of the "strategic" rendition of accounting standards, which allows managers to shift to an unorthodox interpretation that makes them feel comfortable enough to label false accounting estimates as "strategic" rather than unethical (Naz et al., 2025). Neuroticism refers to emotional instability and sensitivity to stress (Nilsen et al., 2024). Highly neurotic people are likely to be cautious under stable conditions but under high-performance pressure or when the economy is failing, they are likely to make impulsive or defensive choices, with creative accounting as a temporary solution to compensate for the failures (Mahmood et al., 2023).

2.3.2 Agreeableness and Conscientiousness

On the other hand, Agreeableness and Conscientiousness are psychological impediments to money manipulation (Angelini, 2023). Agreeableness is defined as empathy, cooperation, and stakeholder welfare (Y. Liu et al., 2025). Agreeable professionals are more likely to be morally sensitive and less likely to be morally disengaged, and thus are less likely to engage in misleading reporting activities that hurt investors (Simha & Parboteeah, 2020). Conscientiousness is

characterized by self-discipline, goal setting, and rule-following (Turner & Hodis, 2025). Highly conscientious managers care more about long-term reputational integrity than short-term gains, and are more wary than others of the reputational and regulatory consequences of creative accounting (Highhouse et al., 2022).

Based on the distinct behavioural predispositions established in the literature, the following hypotheses are proposed:

H1: Extraversion, Neuroticism, and Openness to Experience are positively associated with creative accounting practices.

H2: Agreeableness and Conscientiousness are negatively associated with creative accounting practices.

2.4 Risk-Taking Behaviour as a Mediating Mechanism

Although the latent psychological architecture of decision-making may be the personality, complex organizational outcomes, such as creative accounting are not necessarily attributable to personality per se (Nicholson et al., 2005). Rather, intermediate behavioural dispositions are influenced by personality traits, such as risk-taking behaviour (Highhouse et al., 2022). Risk-taking is defined as a person's willingness to make uncertain decisions that may have negative outcomes but also may have perceived positive outcomes (Nguyen et al., 2025). On the financial reporting front, risk-taking is a manager's willingness to make aggressive accounting assumptions, delay the reporting of losses, or take advantage of regulatory loopholes (Alharbi et al., 2021). The literature has laid the groundwork for the direct relationship between personality and a professional's risk orientation. Extraverted and open people see uncertainty as manageable or as a challenge, which suggests that they are more prone to take risks (Moncel et al., 2025). For those with an emotionally reactive (neurotic) personality, threat of an acute performance threat escalates the risk taking response. For emotionally reactive (neurotic) personalities, acute performance threats increase risk taking response. The conscientious and agreeable tend to be cautious and rule-bound, actively inhibiting risk-taking (Weber et al., 2002).

More importantly, this managerial risk preference serves to channel into financial manipulation. The practice of creative accounting will always be accompanied by ethical and regulatory risks, so it takes some boldness to execute creative accounting, which is called a tolerance for professional jeopardy (Abed et al., 2022). Risk-oriented decision makers are much more likely to perceive reporting as opportunistic, rather than unethical, in situations where pressures come from outside and manipulation is seen as a risk rather than a crime (Bansal, 2024; Cohen et al., 2008). This means that risk-taking acts as a link between psychological factors and the financial misreporting behavior that can be seen.

H3: Personality traits significantly influence risk-taking behaviour; specifically, Extraversion, Neuroticism, and Openness to Experience increase risk-taking, whereas Agreeableness and Conscientiousness decrease it.

H4: Risk-taking behaviour significantly mediates the relationship between the Big Five personality traits and creative accounting practices.

2.5 The Moderating Role of Organizational Ethical Culture

Psychological characteristics and risk orientations are very dependent on the organizational context. The Trait Activation Theory suggests that certain personality traits must be triggered (or activated) by situational cues before they can be expressed as overt behaviour (Tett & Guterman, 2000). Organisational ethical culture is the main situational modulator in the corporate governance situation (Abdou et al., 2024). Organisational ethical culture is shaped by norms, core values, formal ethics programs and behaviours of the leadership, and these elements collectively determine acceptable and unacceptable conduct within the firm (Kaptein, 2008; Treviño et al., 1998). It is not the same as "ethical climate," because although it describes employee perceptions, it also reflects attitudes and structural controls and enforcement mechanisms that are deeply embedded in the organization (Key, 1999). A strong moral climate has the strong effect of restraining behavior. However, the organizational and psychological costs of wrongdoing tend to increase significantly when expectations with regard to ethical behavior are clearly expressed, demonstrated by leaders ("tone-at-the-top"), and strictly enforced (Shafer & Simmons, 2011; W. Zhang, 2024). In such contexts, extraversion or openness of managers becomes a legitimate innovation and value creation and not a deceptive reporting (Arar & Saiti, 2022). In contrast, there is a tendency for the boundaries of behaviour to become indistinct and for moral disengagement to occur in weaker or purely symbolic ethical cultures (Roy et al., 2024). In the absence of a strong moral framework, the high-risk individuals can easily justify creative accounting as a viable means of achieving corporate survival or personal advancement, a phenomenon which is more pronounced in the emerging markets with inconsistent external enforcement (Musah et al., 2025; Olojede & Erin, 2021). Hence, ethical culture is a crucial boundary condition that actively shapes and forms an individual's disposition to risk that can become financial manipulation.

H5: Organisational ethical culture significantly moderates the relationship between risk-taking behaviour and creative accounting practices, such that the positive association between risk-taking and creative accounting is substantially weaker in organisations with strong ethical cultures.

2.6 Theoretical Synthesis

Based on theoretical analysis, the proposed relationships are grounded in four major theories: Trait Activation Theory (TAT), Upper Echelons Theory (UET), Agency Theory, and Fraud Triangle Theory (FTT). TAT suggests that certain environmental factors, such as the presence of performance stress or ethical laxity, activate latent personality traits (Tett & Burnett, 2003). UET builds upon this by proposing that the strategic and financial reporting style of the organization is decided by the activated psychological traits of executives (Hambrick & Mason, 1984; Hiebl, 2014). The economic argument, presented by Agency Theory, is that the agency has a difficulty in obtaining the necessary information, which allows the risk-prone manager to use the accounting discretion at the agency's expense of the owner, who is bound by the Fair and Equitable Treatment (FET) standard (Jensen & Meckling, 1976; Schill, 2009). Finally FTT recognizes the "opportunity" and "rationalization" factors of the fraud triangle and how they can be moderated by a strong ethical culture which can neutralize the process of risk and rationalization becoming misconduct (Cressey, 1953; Kassem & Higson, 2012). These theories put together provide a full and balanced mediation theory that can account for the more complex behavioural etiology of

creative accounting practices.

3.0 Methodology

As per Saunders et al. (2019) and Creswell (2014), the research philosophy used for this research is positivist research which is supported by an objectivist epistemology and a naive realism ontology, meaning that social and behavioural phenomena can be measured objectively, tested empirically and generalized without relying on individual interpretation. As such, the approach of deductive and quantitative study was chosen to systematically examine the hypothesized moderated mediation model. To collect standardized data from a large and diverse population at one time, a cross-sectional survey design was used, which enabled comprehensive statistical analysis required for the structural equation modelling (SEM) (Bell et al., 2022). The respondents were the active professionals working in accounting, auditing, banking and corporate finance areas of Pakistan. These professionals were chosen because they have technical skills and are regularly involved in situations that involve pressures and discretion where creative accounting is likely to occur (Kamau & Murori, 2024).

To ensure full representation, a stratified random sample technique was used, involving public enterprises, private enterprises (family owned), and non-profit enterprises. Strict inclusion criteria focused on the individuals who are directly involved in the financial reporting and decision making process, including Chief Financial Officers, Finance Managers and Auditors, and excluded entry-level trainees and non-financial personnel. Methodologically, this required at least a ratio of 10:1 respondents per item for the 100 items, leaving 690 respondents for the 64-item instrument to sufficiently meet the requirement for factor analysis and have very good statistical power to identify complex mediated and moderated relationships in the variance-based path analysis – structural equation modelling (Hair et al., 2019). Data was collected primarily using a structured online questionnaire which was administered through Google Forms because of its cost-effectiveness, secure data management and distribution capabilities to a geographically dispersed professional population of the major cities and regional districts in Pakistan.

The study was strategically linked with the institutional gate keepers, such as Technical Education and Vocational Training Authority (TEVTA), National Vocational and Technical Training Commission (NAVTTTC), National Technology Council (NTC) and Punjab Skills Development Authority (PSDA) to minimize selection bias and ensure access to highly specialized financial practitioners. All latent constructs were measured with contextually adapted, previously established and psychometrically validated scales. Answers were scored on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). Conscientiousness, Extraversion, Agreeableness, Neuroticism and Openness to Experience were assessed using a 30-item version of a scale adapted from Schmitt et al. (2007) that measured each of the Big Five personality traits. The mediating variable, risk-taking behaviour, used a 7-item scale adapted from Zaleskiewicz (2001) and Domain-Specific Risk-Taking (DOSPERT) framework developed by Weber et al. (2002) which was specifically designed to measure financial reporting and professional judgment risks. The dependent variable—creative accounting practices—was measured using a 14-item scale adapted from Bhasin (2016), which included two types of methods—technical and ethical—in creative

accounting practices. Last, organisational ethical culture was measured using a 13-item scale from Treviño et al. (1998) and Kaptein (2008), which captures ethical norms, leadership behavior and accountability mechanisms. A pilot test was conducted with a sample of 100 respondents that confirmed the face validity, content validity and internal consistency of the instrument, where all of the Cronbach's alpha values were above the acceptable limit of 0.70. To analyze the empirical data systematically, the authors used the Partial Least Squares Structural Equation Modelling (PLS-SEM) technique by analyzing with SmartPLS 4.0 software, along with IBM SPSS Statistics (Version 28) software for preliminary data screening and demographic analysis.

A specific reason for the use of PLS-SEM was to avoid the strong assumption of multivariate normality that is required for covariance-based methods to estimate complex predictive models including multiple latent constructs, one or more mediating pathways, and interaction terms (Hair et al., 2021). The analytical process was carried out in 2 main stages. First, the measurement model (outer model) was assessed for reliability of the indicators and construct validity. The internal consistency of the questionnaires was validated using Cronbach's alpha and the Average Variance Extracted (AVE) for the convergent validity. The heterotrait-monotrait (HTMT) ratio of correlations and the Fornell-Larcker criterion (Henseler et al., 2015) were applied to thoroughly examine the discriminant validity. In order to detect potential Common Method Bias (CMB) from self-reported cross-sectional data, a full collinearity assessment was conducted, and all the Variance Inflation Factor (VIF) values were well below the conservative value of 3.3, indicating that there was no pathological collinearity that would contaminate the model (Kock, 2015). The second stage was a structural model (inner model) analysis with non-parametric bootstrapping procedures (5000 resamples) to provide t-statistics and p-values. This enabled testing of the significance of direct paths, specific indirect paths for mediation, and of interaction terms for moderation. In addition, the predictive relevance of the model was confirmed employing the PLSpredict algorithm, leading to the robust out-of-sample predictive capability of the behavioural framework in the accounting sector (Shmueli et al., 2019).

4.0 Findings and Results

4.1 Demographic Characteristics of Participants

The empirical analysis was done on a final data set of 690 valid responses collected from professionals working in the accounting, finance, auditing and corporate management industry in Pakistan (Hair et al., 2019). A detailed demographic profile was conducted to determine representativeness. Geographically, the respondents were spread across the various regions of the country with maximum (50.0%) respondents from Punjab, followed by Sindh (24.0%), Khyber Pakhtunkhwa (18.0%) and Balochistan (8.0%). There was a high male to female ratio (76.0/24.0) which was typical of the ratio found in the financial sector in the region. The largest age cohort was 26–35 years (34.0%), followed closely by the 36–45 years group (27.0%). There was a good level of sectoral diversity, with 61.0% in the private sector, 33.0% in the public sector and 6.0% in non-profit organizations.

Table 1: Frequency Distribution of Respondent Demographic Profile

Demographic Variable	Category	Frequency (n)	Percentage (%)
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Gender	Male	524	76.0%
	Female	166	24.0%
Age Profile	26–35 years	235	34.0%
	36–45 years	186	27.0%
	Other	269	39.0%
Job Role	Accounting & Finance	421	61.0%
	Auditor	138	20.0%
	Management & Admin	131	19.0%
Type of Firm	Private Sector	421	61.0%
	Public Sector	228	33.0%
	Non-Profit Organisation	41	6.0%

4.2 Measurement Model Assessment (Reliability and Validity)

The measurement model was tested to check the reliability and construct validity of the latent variables before the evaluation of the structural relationships. Cronbach's alpha and composite reliability (rho_c) were used to determine internal consistency reliability. As shown in Table 2, Cronbach's alpha values for all items ranged from 0.775 (Neuroticism) to 0.942 (Organisational Ethical Culture) which is above the standard value of 0.70. The composite reliability values ranged from 0.856 to 0.948, indicating that there was no evidence of redundancy among the indicators. The Average Variance Extracted (AVE) was used to evaluate the convergent validity. AVE values for all constructs were greater than 0.50 and ranged between 0.554 and 0.636, which means that the variance of each latent variable accounted for more than 50% of the variance of its corresponding indicators. The Heterotrait-Monotrait ratios (HTMT) of correlations were also extensively investigated and all of the correlations for the individual constructs were below the conservative cut-off of 0.85, thus providing evidence for the empirical distinction between the constructs. To prevent Common Method Bias(CMB), a full collinearity assessment was carried out and the highest Variance Inflation Factor (VIF) that was recorded was 2.610, indicating no pathological collinearity (Kock, 2015).

Table 2: Construct Reliability and Convergent Validity

Latent Construct	Cronbach's Alpha	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
Extraversion (Ext)	0.857	0.897	0.636
Agreeableness (Agr)	0.825	0.877	0.589
Conscientiousness (Con)	0.840	0.887	0.611
Neuroticism (Nur)	0.775	0.856	0.598
Openness to Experience (Opn)	0.831	0.880	0.595

Risk-Taking Behaviour (RT)	0.881	0.908	0.584
Organisational Ethical Culture (OC)	0.942	0.948	0.583
Creative Accounting Practices (CA)	0.938	0.945	0.554

4.3 Structural Model Assessment and Hypothesis Testing

The structural model was tested using a bootstrapping procedure with 5,000 re-sampling in SmartPLS 4.0 with the purpose of checking the significance, direction and strength of the five hypotheses. The model was highly significant and had a satisfactory level of explanatory power ($R^2 = 0.346$ for Risk-Taking Behaviour, and $R^2 = 0.433$ for Creative Accounting Practices).

Table 3: Structural Path Coefficients and Hypothesis Testing

Hypothesis	Structural Paths	Beta (β)	T-Statistics	P-Values	Result
H1	Extraversion -> CA	0.137	4.272	< 0.001	Supported
	Neuroticism -> CA	0.141	4.662	< 0.001	
	Openness -> CA	0.108	3.322	0.001	
H2	Agreeableness -> CA	-0.162	4.946	< 0.001	Supported
	Conscientiousness -> CA	-0.142	4.187	< 0.001	
H3	Extraversion -> RT	0.316	10.676	< 0.001	Supported
	Neuroticism -> RT	0.132	4.390	< 0.001	
	Openness -> RT	0.183	5.871	< 0.001	
	Agreeableness -> RT	-0.265	8.185	< 0.001	
	Conscientiousness -> RT	-0.153	4.694	< 0.001	
H4 (Mediation)	Ext -> RT -> CA	0.103	6.567	< 0.001	Supported
	Nur -> RT -> CA	0.043	2.687	0.007	
	Opn -> RT -> CA	0.059	3.105	0.002	
	Agr -> RT -> CA	-0.086	4.300	< 0.001	
	Con -> RT -> CA	-0.050	2.777	0.005	
H5 (Moderation)	OC x RT -> CA	-0.181	5.173	< 0.001	Supported

CA = Creative Accounting Practices; RT = Risk-Taking Behaviour; OC = Organisational Ethical Culture.

All five hypotheses were supported by the analysis. Extraversion ($\beta = 0.137$), Neuroticism ($\beta = 0.141$) and Openness to Experience ($\beta = 0.108$) showed significant positive relationship with the creative accounting practices respectively. The creative accounting was significantly and negatively predicted by H2, which act as a mediator for Agreeableness ($\beta = -0.162$) and Conscientiousness ($\beta = -0.142$). The results showed that H3 was confirmed, that is, the three personality traits of Extraversion, Neuroticism and Openness positively affect risk-taking behavior, whereas Agreeableness and Conscientiousness strongly reduce risk-taking behavior. The mediation analysis was also valid for H4, which indicates that risk-taking serves as an important mediator. The indirect paths involving Extraversion ($\beta = 0.103$) Neuroticism ($\beta = 0.043$) and Openness ($\beta = 0.059$) were all positive and significant, while the indirect paths involving Agreeableness ($\beta = -0.086$) and Conscientiousness ($\beta = -0.050$) were all negative and significant. As a last, the interaction term OC x RT was significant and negative ($\beta = -0.181$, $p < 0.001$), meaning that the positive relationship between risk-taking and creative accounting is significantly reduced if the organizational ethical culture is strong.

5.0 Discussion and Conclusion

The empirical results of this study present a complex picture of some psychological and cultural factors that influence financial misreporting, which fits well with the five suggested hypotheses. As for H1, the data proves that individuals high in Extraversion, Neuroticism and Openness tend to be significantly more likely to engage in creative accounting (Judge et al., 2002; Suls & Martin, 2005). Ambiguous types, who want to be successful in their careers and feel good about their performance based on external results, tend to focus more on pursuing aggressive financial goals than on faithful representation. In the same way, emotionally reactive (neurotic) people use creative accounting techniques defensively to cover up poor performance during stress, and individuals high in openness are able to take advantage of accounting loopholes through their cognitive flexibility (McCrae, 1987). On the other hand, in dealing with H2, Conscientiousness and Agreeableness are important psychological barriers. The desire to influence financial results is only natural for rule-abiding professionals with high levels of control and discipline, as well as for others who value empathy and the interests of others (Barrick & Mount, 1991; Graziano & Eisenberg, 1997). The results for H3 and H4 provide light on the critical active behavioural mechanism which links these latent characteristics to real misconduct – that of taking risks (Nicholson et al., 2005). The data confirms that creative accounting is a risky business, and the other personality traits that increase the willingness to take risks in business (Extraversion, Openness) directly lead to increased professional risk taking and therefore to the possibility of manipulating the financial statements. Importantly, the validation of H5 puts these psychological pathways into the organisation. The study illustrates the non-causal relationship between a person's natural risk-taking tendency and financial misreporting. A strong organizational ethical culture greatly reduces the risk-taking to creative accounting (Treviño et al., 1998). An ethical work environment sets clear rules and boundaries for behavior, eliminating the "opportunity" and "rationalization" aspects of the Fraud Triangle, thereby showing that culture can counteract

dispositional vulnerabilities (Cressey, 1953; Kassem & Higson, 2012).

5.1 Conclusion

This research finds that creative accounting is not just a result of institutional loopholes or lax external enforcement but is, indeed, a behavioural phenomenon, if the definition of creative accounting is expanded to include the psychology of the executives. The Big Five personality traits have an important influence on a professional's tendency to manipulate the financial statements, most notably because they affect the extent to which risk-taking is tolerated. The study, however, does prove that psychological vulnerabilities are not set in stone. An organizational ethical culture, as defined by strong ethical norms and active enforcement of them is a major boundary condition that can completely take the bite out of the risk taking tendencies that give rise to opportunistic financial reporting.

5.2 Recommendations

Psychometric Screening: Incorporate personality and behavioural risk assessment into recruitment and promotion in organizations, especially in the financial industry, for sensitive oversight positions. By understanding their high-risk profile, they can help to minimise risks of reporting before they arise.

Cultural Reform over Compliance: The culture must reform the compliance – the regulators (SECP, SBP, etc.) and the corporate boards have to understand that technical compliance is not enough. Organisations need to build strong cultures that foster ethics as a core part of their business with a clear "tone at the top", regular ethics training and accountability to prevent rationalisation from taking place.

Enhanced Auditor Assessment: External auditors and professional bodies need to integrate the assessment of management's behavioural risk profile and the organisational ethical climate into their regular audit risk assessment.

5.3 Future Research

This study is an empirical study with strong empirical evidence but the cross sectional design restricts the absolute causal inference. Longitudinal designs are suggested for future research to observe interactions between personality traits and organizational ethical climate over time that affect reporting behaviours. Further, cross-cultural comparative analyses are suggested to confirm these behavioural paths in other international regimens, looking at how the level of institutional control influences the extent of the psychological drivers. Last but not least, mixed methods might help to gain qualitative understanding of the particular moral rationales executives use when facing severe corporate pressures and resorting to creative accounting.

Contribution

Sajid Mushtaq: Problem Identification and Theoretical Framework

Khalil Ur Rehman: Data Analysis, Supervision and Drafting

Conflict of Interests/Disclosures

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